Beet grower files $246 million lawsuit against GWU

By ROBERT A. BURNS
News Business Editor

A $246 million class-action lawsuit against Denver-based Great Western United Corp. and its major subsidiary, Great Western Sugar Co., was filed in federal district court in Denver Friday by a Kansas sugar beet grower in behalf of himself and 4,000 other growers who sell beets to the sugar company.

The suit alleges Great Western Sugar has refused to honor its contracts with growers and that the parent company has wrongfully drained off money due growers and used it instead to pay dividend arrearages to stockholders and to battle two sons of Dallas oil billionaire H.L. Hunt, who are trying to seize control of GWU through a tender offer for stock.

The suit was brought by William A. Davis and his three sons who own Davis Cattle Co. of Goodland, Kan. The Davis family has about 361 acres planted to sugar beets.

The suit centers on the initial payment by the company to the growers for the 74.53 million ton 1974 sugar beet crop. The harvesting of the 1974 crop began in October, and the beets collected will take about four months to process, with the sugar from the crop being sold until next September, when the process will begin again.

The growers receive several payments from the company each year as the sugar is processed and sold in the market place. The growers' share depends on the price the company gets for the sugar as it is sold.

The Davis suit contends that on Nov. 4 an official of Great Western Sugar told a growers' meeting at the Oxford Hotel that the initial payment under the 1974 sugar beet contract with growers would be $26.25 a ton, not counting a $2.33 per ton subsidy payment from the federal government.

That sum, the suit says, is equal to a price of $17 “average net return per 100 pounds of sugar” to the company.

But on Nov. 13, the suit points out, GWU sent a letter to its stockholders saying the company expected “that the average price for the company's refined sugar for the next 12 months would be $33 per 100 pounds.”

The same shareholder letter, the suit notes, said the company was using $40 per 100 pounds “for internal projections.”

Based on the $33 per hundredweight price, the stockholder letter said, the sugar company's profits in the coming 12 months would be $11.5 million, or $54 a share. Using the $40 figure, the company would earn $69 million, or $38 a share, the letter said.

The growers' lawsuit says that the $33 per hundredweight price for refined sugar converts back into a price of $94.83 a ton for sugar beets, and the $40 refined price projection figures out to be $71.14 a ton.

Since the growers would get 85 per cent of the per ton price in the initial payment, the suit says, the growers ought to have gotten $80.61 a ton instead of the $26.25 paid them, a difference of $54.36 a ton on 4.53 million tons, or a total $246,250,000.

The suit goes on to allege that GWU has used money which the growers are entitled to under their 1974 sugar beet contracts to pay dividend arrearages on the firm's $1.88 preferred stock, to meet a sinking fund obligation and to “defeat” the Hunt's tender offer by using the funds due the growers “for the purpose of satisfying and pleasing” shareholders.

Davis said in a statement tie company is “short-changing the growers” by $246 million.

“...It would appear that Great Western United is using the money properly belonging to the growers to finance their fight against the takeover bid by N.B. and W.H. Hunt,” Davis said.

He said the suit seeks not only payment to the growers of that amount but also to enjoin GWU and the sugar company “from carrying out its plan to dissipate the funds...properly payable to the growers.”

Robert Owen, president of the Great Western Producers Cooperative, which unsuccessfully sought to buy the sugar company earlier this year, said his organization backs Davis.

“The co-op is in full support of Bill Davis,” Owen said. “We think he's doing a real service for all of the growers.”

Owen noted that the growers received their checks for the initial crop payment on Thursday.

Davis' suit was filed by the Washington, D.C., law firm of William, Connolly & Califano, and seeks damages and costs as well as the $246 million and an injunction.

James A. Krentler, former GWU chairman who was named president Friday, said he hadn't seen the Davis suit and therefore couldn't comment on it.

Krentler, who is also chairman and president of Great Western Sugar, said he was “surprised” by his election as chief executive of the conglomerate, which also owns Great Western Cities, a land development concern, and Shakey's Inc., a pizza restaurant chain.

Krentler succeeds Robert G. Everett, who was GWU president until Nov. 7, when he resigned. Krentler had been GWU chairman and resigned that post when Everett quit.

R.J. Adelman, a longtime GWU director and Chicago businessman, was named GWU chairman at that time.

In other corporate personnel changes disclosed Friday GWU said Robert A. Schwartz was named secretary of GWU and will continue as controller. He joined the company in 1970 and was named controller last year.

Eleanor Buffing was named assistant secretary and will continue as director of communications. She joined the firm in 1973.